



Baltic International Bank

JSC “BALTIC INTERNATIONAL BANK”
PUBLICLY AVAILABLE QUARTERLY FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2017



Table of contents

| | |
|--|----|
| Table of contents | 2 |
| Report from the Bank's (Group's) Senior Management | 3 |
| Members of the consolidation group | 5 |
| Bank's shareholders..... | 5 |
| Bank's senior management | 6 |
| Organizational Structure of the Bank | 7 |
| Bank's operational strategy and operational objectives | 8 |
| Risk management | 9 |
| Income statement | 10 |
| Balance sheet statement..... | 11 |
| Overview of own funds and capital ratios..... | 12 |
| Liquidity ratio calculation | 13 |
| Note 1. Securities portfolio | 14 |
| Note 2. Debt securities of central governments | 15 |



Report from the Bank's (Group's) Senior Management

In 2017, Baltic International Bank actively worked to transform its operations in line with the Bank's new investments-based business model. Upon concluding the organisation of the Bank's assets and introducing the new business model, the structure and number of customers of the Bank changed, and deposits decreased significantly.

In the 2nd half of 2017, having changed the structure of its team of bankers, Baltic International Bank actively started attracting new customers as well as worked on establishing business relations with existing customers at a new level, as a result of which all financial indicators related to the volume of customers' funds demonstrated growth in the 2nd half of 2017.

In the 2nd half of 2017, the total of customer funds grew by 18% and reached EUR 444 million, the amount of deposits attracted by Baltic International Bank went up by 25,5% during the reporting period. The assets under management at the end of 2017 amounted to EUR 68,17 (68,17) million, and the value of financial instruments in brokerage service – EUR 120,71 (120,71) million.

The bank's assets (the Group-related financials are enclosed within the parentheses) amounted to EUR 303,35 (302,10) million, which is 13,5% more than at the end of first half of 2017. The Bank's loan portfolio totalled EUR 69,77 (68,40) million or

23,0 (22,6) percent of the total assets as of 31 December 2017.

The financial asset structure is still predominantly represented by investments in available-for-sale financial assets: EUR 43,72 million (EUR 43,72 million) or 14,4 percent (14,5 percent) of the total assets. High-quality liquid assets (assets carrying investment-grade credit rating and balances due from the Bank of Latvia) amounted to EUR 159,44 million (EUR 159,44 million) or 52,6 percent (52,8 percent) of the total assets. Investments in government bonds totalled EUR 26,87 million (EUR 26,87 million) or 8,9 percent (8,9 percent) of the total assets.

Operations related to changing the business model and customer structure, as well as the quality assessment of some historically acquired assets of the Bank created an expected temporary negative impact on the Bank's financial indicators, thus the Bank ended 2017 with a loss of EUR 2,67 million (EUR 3,61 million). The financial results were also influenced by investments in continued improvement of the internal control system, development of information technologies and infrastructure that Baltic International Bank carried out in 2017, as well as investments in staff and strengthening their competence.

The operating income totalled EUR 15,0 million (EUR 15,0 million). The structure of the Bank's operating income was dominated by income from trade in and revaluation of



foreign currencies 60,7 percent (60,7 percent). The percentage of fee and commission income increased to 24,8 percent (24,8 percent) compared to the same period last year when the fee and commission income totalled 17,7% (17,7%). The net interest income increased by 17,3 percent (17,4 percent) compared to the same period last year when The net interest income totalled 11,3% (11,2%).

Administrative costs reached EUR 13,74 million (EUR 13,92 million), which is 5,8 percent (5,0 percent) below the level of the previous year. As a result of an increase in investments for the upgrade of information systems and fixed assets, the depreciation and amortization costs grew by 4,4 percent (4,4 percent) up to EUR 1,53 million (EUR 1,53 million). Other expense amounted to EUR 3,25 million (EUR 3,25 million), of which EUR 1,79 million (EUR 1,79 million) are one-time expenses, related to changes in the terms of sale of the real property owned by the Bank.

The liquidity ratios exceed the regulatory thresholds. As of 31 December 2017, the liquidity ratio was 92,29 percent. The structure of liquid assets is well diversified, as represented by bonds 20 percent, due from credit institutions 13 percent, due from the Bank of Latvia 66 percent and cash 1 percent. The liquidity coverage ratio (LCR) totalled 376,43 percent (375,44 percent). The net

stable funding ratio (NSFR), characterizing the availability of a stable funding profile in relation to the composition of assets and off-balance sheet activities, reached 154,64 percent (155,23 percent).

As of 31 December 2017, the Bank's own funds totalled EUR 29,97 million (EUR 28,79 million). The Bank's Tier I capital ratio (CETI) totalled 11,60 percent (11,12 percent). Having reached 14,98 percent (14,53 percent).

In 2017, Baltic International Bank continued to implement a broad range of social responsibility projects promoting the development of culture, art and public opinion in Latvia. Baltic International Bank supported the publication of several books in the series "Mēs. Latvija, XX gadsimts" (Us. Latvia. The XX century) and other publications of significance to Latvia's cultural history. In 2017, the Bank also supported the development of start-ups. The Baltic International Bank Latvian Barometer surveys were carried out throughout the year, providing a unique monthly insight into the general mood and public opinion in Latvia regarding various current topics of national importance. Thanks to its sustainable model of operations and broad range of social responsibility initiatives, Baltic International Bank ranked in the Gold category of the 2017 Sustainability Index.



Members of the consolidation group

| No | Company name and registration number | Code of registration state and address | Institution type ¹ | Ownership interest (%) | Percentage of voting rights (%) | Rationale behind the inclusion |
|----|---|--|-------------------------------|------------------------|---------------------------------|--------------------------------|
| 1 | AS "Baltic International Bank", | LV, Kalēju iela 43, Rīga | BNK | 100 | 100 | PC |
| 2 | SIA "CLAIM MANAGEMENT", 40103681310 | LV, Kalēju iela 47-1, Rīga | OFI | 100 | 100 | PCS |
| 3 | AS "BIB Alternative Investment Management", 40203036638 | LV, Kalēju iela 43 - 4, Rīga | OFI | 100 | 100 | PCS |
| 4 | SIA "BIB real Estate", 40003868021 | LV, Kalēju iela 41, Rīga | OFI | 100 | 100 | PCS |
| 5 | SIA "Gaujas Īpašumi", 40103249888 | LV, Kalēju iela 41, Rīga | OFI | 100 | 100 | SCS |
| 6 | SIA "Global Investments", | LV, Merķeļa iela 6 - 11, Rīga | OFI | 100 | 100 | SCS |

¹ BNK - bank; OFI - other financial institution; SE - supporting enterprise.

² PC - parent company; PCS- parent company subsidiary company; SCS - subsidiary company subsidiary company.

Bank's shareholders

The Bank's subscribed and paid-in share capital totals EUR 31 496 395,20 and is divided into 4 436 112 ordinary shares carrying identical voting rights. All shares are registered. Each share carries the right to one vote at the meetings of shareholders, a right to receive dividends as declared from time to time and a right to residual assets. Each share has a par value of EUR 7,10.

Of the Bank's 92 shareholders, 27 are corporate entities and 65 are private individuals.

Listed below are the shareholders who control more than 10 percent of the shares in the shareholders' equity:

- Valeri Belokon – 69,89891%
- Vilori Belokon – 30,04633 %.



Bank's senior management

SUPERVISORY BOARD (31.12.2017)

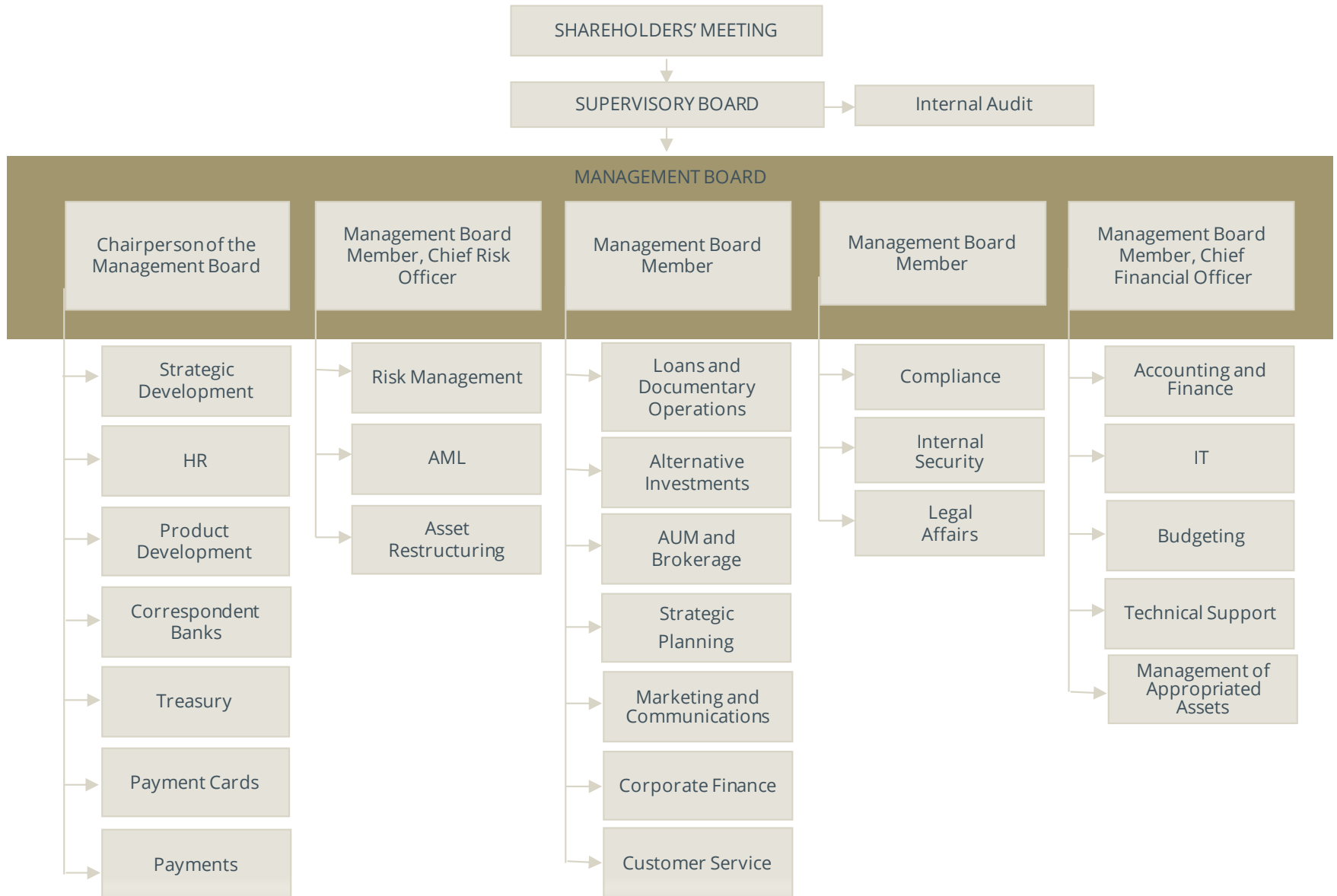
| Name and surname | Position |
|---------------------------|-----------------------------------|
| Valeri Belokon | Chairperson of the Council |
| Vlada Belokon | Deputy Chairperson of the Council |
| Andris Ozolins | Member of the Council |
| Hans-Friedrich Von Ploetz | Member of the Council |
| Joseph Cofer Black | Member of the Council |

MANAGEMENT BOARD (31.12.2017)

| Name and surname | Position |
|----------------------|---|
| Ilona Gulchak | Chairperson of the Board |
| Viktors Bolbats | Member of the Board |
| Alon Nodelman | Member of the Board, Authorised Signatory |
| Bogdan Andrushchenko | Member of the Board |
| Anda Saukane | Member of the Board |



Organizational Structure of the Bank





Bank's operational strategy and operational objectives

Bank's strategy has always been geared towards providing bespoke services to HNWIs and corporate customers, managing customers' wealth responsibly, and offering excellent top-level personalised service. Over the past few years, the banking sector both in Latvia and around the world experienced drastic changes. To ensure sustainable operations and development in the ever-changing market circumstances, the Bank adopted its new *Strategy 2030* in autumn 2016.

Strategy based on ESG concept

One of the major **goals** of the *Bank's Strategy 2030* is to become a bank which, together with its customers, through generations, invests in environmentally-friendly and sustainable projects and companies which are dedicated to similar environmental values and which exert a positive long-term impact on the future.

The Bank's operational strategy is based on ESG concept. ESG refers to considering the environmental, social and governance issues. The ESG concept focuses on environmental protection, social responsibility and principles of good governance.

Customers

The Bank's **customers** are individuals for whom socially responsible investment is an integral and essential part of capital allocation decision-making. By seizing Bank-offered opportunities, our customers not only realise their intention to earn money from investing but also positively shape the world around and acquire new experience and knowledge.

The Bank's objective is to maintain geographically diversified customer base, to focus more intensely on customers from Europe and Asia and to pinpoint new market segments. We help our customers safeguard and grow their wealth, pass the wealth on to future generations, and create harmonious future environment.

Team

The Bank's objective is to employ a highly professional team of experts to be able to provide personalised services to the customers and ensure safety, security, accessibility and growth of their money. We purposefully enhance our knowledge and expertise and strengthen our competences in environmentally friendly and sustainable investment. Bank's corporate values include knowledge & expertise, confidence, and succession.



Risk management

The information about risk management is available in 2016 Annual Report from page 50 till page 59 on JSC "Baltic International Bank" web page www.bib.eu/en/financial-performance. Since 31 December 2016 there are no any material changes in risk management.

The Bank's performance ratios

| Item | 31.12.2017 (unaudited) | 31.12.2016 (unaudited) |
|---|---------------------------|---------------------------|
| Return on Equity (ROE) (%) | -8.29 | 0.40 |
| Return on Assets (ROA) (%) | -0.95 | 0.03 |
| Total capital ratio (%) | 14.98 | 16.48 |
| Liquidity ratio (%) | 92.29 | 70.02 |
| Operational income* (in thousands euro) | 14 993 | 28 246 |
| Operational expences** (in thousands euro) | 18 523 | 17 107 |
| Financial result before specific provisions and corporate income tax*** (in thousands euro) | -3 530 | 11 139 |

*Operational income = net interest income + net fee and commission income + other income

**Operational expences = administrative expences + amortisation + other operational expences

***Financial result before specific provisions and corporate income tax = operational income - operational expences



Income statement

| Item | 01.01.2017 - 31.12.2017 | | 01.01.2016 - 31.12.2016 | |
|--|-------------------------|---------------|-------------------------|------------|
| | (unaudited) | | (audited) | |
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Interest income | 4 318 | 4 335 | 5 028 | 5 068 |
| Interest expense | -1 721 | -1 721 | -1 869 | -1 868 |
| Dividend income | 10 | 10 | 7 | 7 |
| Fee and commission income | 5 453 | 5 454 | 8 426 | 8 427 |
| Fee and commission expense | -1 738 | -1 737 | -3 421 | -3 421 |
| Net realised gain/loss on financial assets and financial liabilities carried at amortised cost | 0 | 0 | 0 | 0 |
| Net realised gain/loss on available for sale financial assets | -609 | -609 | -520 | -520 |
| Net gain/loss on financial assets and financial liabilities held for trading | 15 | 15 | 4 029 | 4 029 |
| Net gain/loss on financial assets and financial liabilities at fair value through profit or loss | 0 | 0 | 0 | 0 |
| Changes in fair value of the hedged items | 0 | 0 | 0 | 0 |
| Gain/loss on trade in and revaluation of foreign currencies | 9 104 | 9 104 | 16 345 | 16 345 |
| Gain/loss on derecognition of property, plant and equipment, investment property and intangible assets | 0 | 0 | 0 | 0 |
| Other income | 173 | 142 | 231 | 179 |
| Other expenses | -3 254 | -3 248 | -1 147 | -1 048 |
| Administrative expenses | -13 916 | -13 741 | -14 644 | -14 590 |
| Depreciation | -1 534 | -1 534 | -1 469 | -1 469 |
| Result of provisions for doubtful debts | 167 | -24 | -10 593 | -10 926 |
| Impairment losses | -1 119 | -151 | 0 | 0 |
| Loss / profit before corporate income tax | -4 651 | -3 705 | 403 | 213 |
| Corporate income tax | 1 037 | 1 037 | -78 | -78 |
| Loss / profit for the current year | -3 614 | -2 668 | 325 | 135 |



Balance sheet statement

| Item | 31.12.2017 (unaudited) | | 31.12.2016 (audited) | |
|--|---------------------------|----------------|-------------------------|----------------|
| | Group | Bank | Group | Bank |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Cash and due from central banks repayable on demand | 105 915 | 105 915 | 70 152 | 70 152 |
| Due from credit institutions repayable on demand | 24 730 | 24 730 | 1 182 | 1 182 |
| Financial assets held for trading | 100 | 100 | 1 178 | 1 178 |
| Financial assets at fair value through profit or loss | 5 447 | 5 447 | 8 074 | 8 074 |
| Financial assets available for sale | 43 722 | 43 722 | 85 746 | 85 746 |
| Loans and receivables | 70 486 | 71 855 | 86 188 | 87 793 |
| <i>Other due from credit institutions</i> | 2 090 | 2 090 | 16 793 | 16 793 |
| <i>Loans</i> | 68 396 | 69 765 | 69 395 | 71 000 |
| Investments held to maturity | 16 295 | 16 295 | 16 692 | 16 692 |
| Change in fair value of a hedged portion of the portfolio attributable to the interest rate risk | 0 | 0 | 0 | 0 |
| Deferred expenses and accrued income | 2 590 | 2 585 | 2 431 | 2 434 |
| Fixed assets | 16 753 | 16 752 | 17 250 | 17 249 |
| Investment property | 7 619 | 4 712 | 5 885 | 2 355 |
| Intangible assets | 4 184 | 4 184 | 4 108 | 4 108 |
| Investments in associated and related companies | 1 145 | 4 034 | 1 145 | 3 210 |
| Current tax assets | 14 | 14 | 15 | 15 |
| Other assets | 3 098 | 3 003 | 8 044 | 8 202 |
| Total assets | 302 098 | 303 348 | 308 090 | 308 390 |
| Liabilities to central banks | 14 160 | 14 160 | 14 160 | 14 160 |
| Due to credit institutions repayable on demand | 279 | 279 | 1 797 | 1 797 |
| Financial liabilities held for trading | 462 | 462 | 0 | 0 |
| Financial liabilities at fair value through profit or loss | 0 | 0 | 0 | 0 |
| Financial liabilities valued at depreciated cost | 255 248 | 255 415 | 256 089 | 256 224 |
| <i>Term liabilities due to credit institutions</i> | 0 | 0 | 0 | 0 |
| <i>Deposits</i> | 238 941 | 239 108 | 229 939 | 230 074 |
| <i>Subordinated liabilities</i> | 14 638 | 14 638 | 16 026 | 16 026 |
| <i>Debt securities in issue</i> | 1 669 | 1 669 | 10 124 | 10 124 |
| Financial liabilities arising from the transfer of financial assets | 0 | 0 | 0 | 0 |
| Change in fair value of a hedged portion of the portfolio attributable to the interest rate risk | 0 | 0 | 0 | 0 |
| Deferred income and accrued expenses | 1 604 | 1 600 | 1 613 | 1 613 |
| Provisions | 0 | 0 | 0 | 0 |
| Tax liabilities | 0 | 0 | 1 037 | 1 037 |
| Other liabilities | 1 816 | 1 740 | 1 537 | 1 485 |
| Total liabilities | 273 569 | 273 656 | 276 233 | 276 316 |
| Shareholders' equity | 28 529 | 29 692 | 31 857 | 32 074 |
| Total liabilities and shareholders' equity | 302 098 | 303 348 | 308 090 | 308 390 |
| Memorandum items | | | | |
| Contingent liabilities | 210 | 210 | 1 550 | 1 550 |
| Commitments to customers | 6 293 | 6 378 | 9 717 | 9 803 |



Overview of own funds and capital ratios

| No | Item | 31.12.2017 | |
|-------------|--|----------------|----------------|
| | | (unaudited) | |
| | | Group | Bank |
| | | EUR'000 | EUR'000 |
| 1. | Own funds (1.1.+1.2.) | 28 790 | 29 966 |
| 1.1. | Tier 1 capital (1.1.1.+1.1.2.) | 22 036 | 23 212 |
| 1.1.1. | Common equity Tier 1 capital (CET1 capital) | 22 036 | 23 212 |
| 1.1.2. | Additional Tier 1 capital | 0 | 0 |
| 1.2. | Tier 2 capital | 6 754 | 6 754 |
| 2. | Total risk exposure amount | 198 092 | 200 058 |
| 2.1. | Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries | 159 171 | 161 174 |
| 2.2. | Total risk exposure amount for settlement/delivery | 0 | 0 |
| 2.3. | Total risk exposure amount for position, foreign exchange and commodities risks | 876 | 876 |
| 2.4. | Total risk exposure amount for operational risk | 38 028 | 37 991 |
| 2.5. | Total risk exposure amount for credit valuation adjustment | 17 | 17 |
| 2.6. | Total risk exposure amount related to large exposures in the trading book | 0 | 0 |
| 2.7. | Other risk exposure amounts | 0 | 0 |
| 3. | Capital ratios and capital levels | | |
| 3.1. | CET1 capital ratio (1.1.1./2.*100) | 11.12 | 11.60 |
| 3.2. | Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%) | 13 122 | 14 209 |
| 3.3. | T1 capital ratio (1.1./2.*100) | 11.12 | 11.60 |
| 3.4. | Surplus(+)/Deficit(-) of T1 capital (1.1.-2.*6%) | 10 150 | 11 208 |
| 3.5. | Total capital ratio (1./2.*100) | 14.53 | 14.98 |
| 3.6. | Surplus(+)/Deficit(-) of total capital (1.-2.*8%) | 12 943 | 13 961 |
| 4. | Combined Buffer Requirement (4.1.+4.2.+4.3.+4.4.+4.5.) | 2.5 | 2.5 |
| 4.1. | Capital conservation buffer (%) | 2.5 | 2.5 |
| 4.2. | Institution specific countercyclical capital buffer (%) | 0.0 | 0.0 |
| 4.3. | Systemic risk buffer (%) | 0.0 | 0.0 |
| 4.4. | Systemically important institution buffer (%) | 0.0 | 0.0 |
| 4.5. | Other Systemically Important Institution buffer (%) | 0.0 | 0.0 |
| 5. | Capital ratios due to adjustments | | |
| 5.1. | Provisions or assets value adjustments applying specific policy for the purpose of own funds calculation | 0 | 0 |
| 5.2. | CET1 capital ratio due to adjustments defined in row No 5.1. (%) | 11.12 | 11.60 |
| 5.3. | Tier 1 capital ratio due to adjustments defined in row No 5.1. (%) | 11.12 | 11.60 |
| 5.4. | Total capital ratio due to adjustments defined in row No 5.1. (%) | 14.53 | 14.98 |



Liquidity ratio calculation

| No | Item | 31.12.2017 (unaudited) Bank EUR'000 |
|----------|---|---|
| 1 | Liquid assets | 158 383 |
| 1.1. | Vault cash | 1 579 |
| 1.2. | Balances due from Bank of Latvia | 104 336 |
| 1.3. | Balances due from solvent credit institutions | 20 917 |
| 1.4. | Liquid securities | 31 551 |
| 2 | Current liabilities (residual maturity of up to 30 days) | 171 616 |
| 2.1. | Balances due to credit institutions | 279 |
| 2.2. | Deposits | 161 482 |
| 2.3. | Debt securities in issue | 0 |
| 2.4. | Money in transit | 987 |
| 2.5. | Other current liabilities | 3 617 |
| 2.6. | Off-balance sheet items | 5 251 |
| 3 | Liquidity ratio (1:2) (%) | 92.29 |
| 4 | Minimum liquidity ratio (%) | 30.00 |



Note 1. Securities portfolio

The Bank's securities portfolio breaks down by country:

| 31.12.2017 | | | | |
|--------------------------------|--------------------------------------|--|---------------------------------|---------------|
| (unaudited) | | | | |
| | Financial assets held for trading | Financial assets available for sale | Investments held to maturity | Total |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Multilateral development banks | 0 | 14 159 | 0 | 14 159 |
| USA | 2 | 2 490 | 0 | 2 492 |
| Poland | 0 | 5 644 | 2 270 | 7 914 |
| Germany | 0 | 1 500 | 0 | 1 500 |
| Denmark | 0 | 4 147 | 0 | 4 147 |
| Lithuania | 0 | 0 | 2 276 | 2 276 |
| Latvia | 2 | 6 351 | 5 243 | 11 596 |
| United Kingdom | 0 | 2 545 | 0 | 2 545 |
| Netherlands | 0 | 4 096 | 0 | 4 096 |
| Other countries* | 96 | 2 790 | 6 506 | 9 392 |
| Total | 100 | 43 722 | 16 295 | 60 117 |

* Each country's issuers' total carrying value is less than 10% from own funds

During the reporting period has not been recognized an impairment for financial assets available for sale.

| 31.12.2016 | | | | |
|--------------------------------|--------------------------------------|--|---------------------------------|----------------|
| (audited) | | | | |
| | Financial assets held for trading | Financial assets available for sale | Investments held to maturity | Total |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Multilateral development banks | 0 | 28 497 | 0 | 28 497 |
| USA | 3 | 681 | 0 | 684 |
| Spain | 0 | 20 762 | 0 | 20 762 |
| Germany | 50 | 9 474 | 0 | 9 524 |
| Denmark | 0 | 9 575 | 0 | 9 575 |
| Lithuania | 0 | 4 940 | 2 639 | 7 579 |
| Latvia | 2 | 4 601 | 2 889 | 7 492 |
| United Kingdom | 71 | 3 145 | 0 | 3 216 |
| Turkey | 0 | 4 034 | 0 | 4 034 |
| Other countries* | 503 | 37 | 11 164 | 11 704 |
| Total | 629 | 85 746 | 16 692 | 103 067 |

* Each country's issuers' total carrying value is less than 10% from own funds



Note 2. Debt securities of central governments

The Bank's debt securities of central governments break down by country

| | 31.12.2017. (unaudited) | 31.12.2016 (audited) |
|------------------|-----------------------------------|--------------------------------|
| | Carrying value | Carrying value |
| | EUR'000 | EUR'000 |
| Poland | 7 914 | 2 673 |
| Spain | 0 | 20 762 |
| Lithuania | 2 276 | 7 579 |
| Latvia | 10 978 | 6 777 |
| Turkey | 0 | 4 034 |
| Other countries* | 4 091 | 5 268 |
| Total | 26 873 | 47 093 |

* Each country's issuers' total carrying value is less than 10% from own funds